



**Auditor of State
David A. Vaudt**

“Budgeting — Iowa’s Future”

September 2010

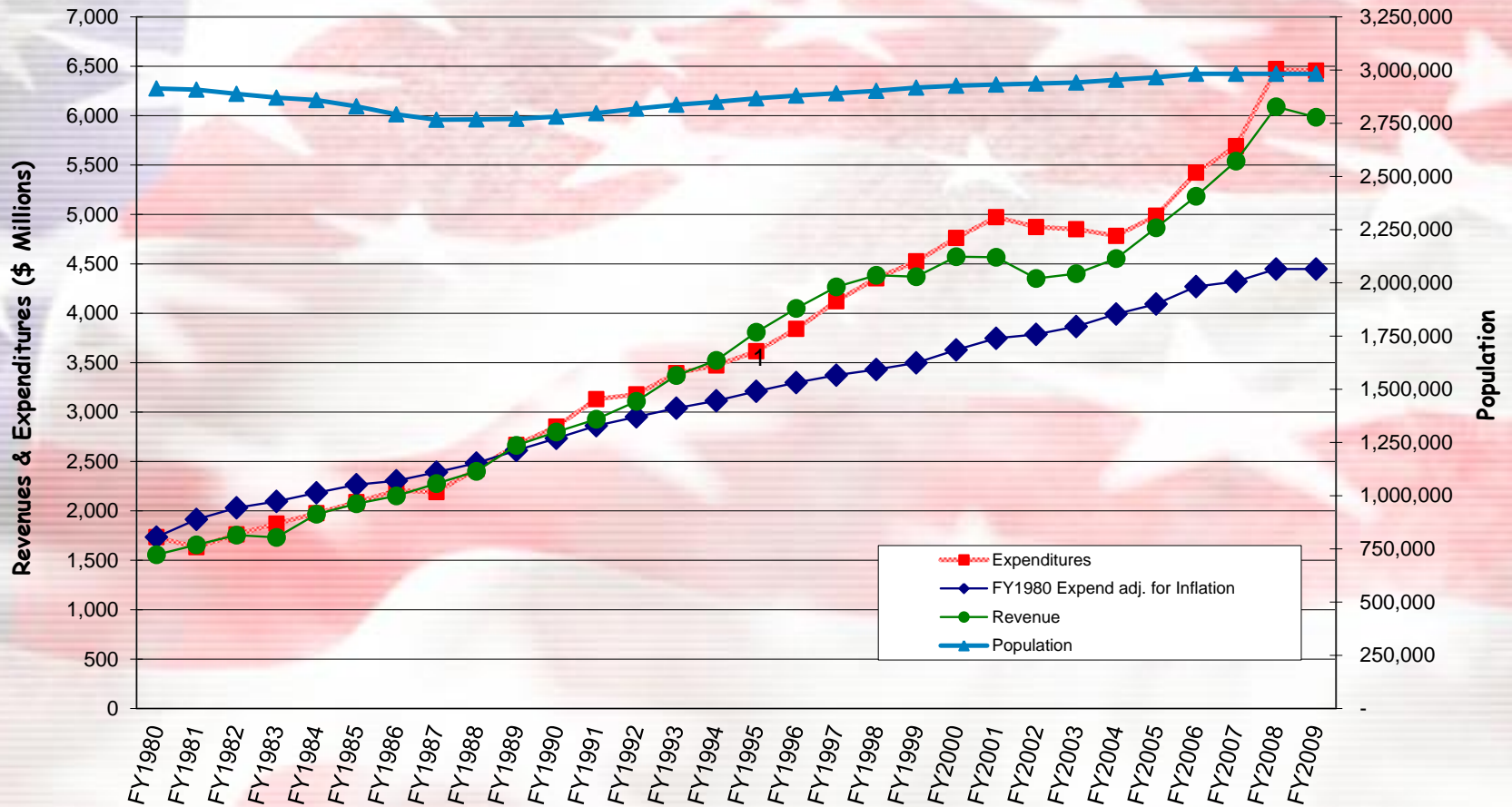
The background of the slide is a stylized, slightly blurred image of the United States flag, featuring the stars and stripes in red, white, and blue.

State of Iowa General Fund Budget

- Historical Perspective
- FY11 Budget
- FY12 Outlook
- Questions



State of Iowa – General Fund Budget Historical Perspective – Population, Expenditures*, and Revenues



*Adjusted for all resources

State of Iowa – General Fund Budget Historical Perspective – Lack of Clarity (\$ in Millions)

	<u>Reported Expenditures</u>	<u>Expenditures Shifted</u>		<u>“True Total Expenditures”</u>
		<u>Amount</u>	<u>%</u>	
FY00	\$ 4,764	-	-	\$ 4,764
FY01	\$ 4,887	\$ 86	1.8	\$ 4,973
FY02	\$ 4,608	\$ 266	5.8	\$ 4,873
FY03	\$ 4,534	\$ 317	7.0	\$ 4,851
FY04	\$ 4,517	\$ 259	5.7	\$ 4,776
FY05	\$ 4,558 (A)	\$ 430	9.4	\$ 4,988
FY06	\$ 5,028	\$ 397	7.9	\$ 5,425
FY07	\$ 5,320	\$ 393	7.3	\$ 5,713
FY08	\$ 5,950	\$ 522	8.8	\$ 6,472
FY09	\$ 5,959	\$ 497 (B)	8.3	\$ 6,456
FY10 Budget	<u>\$ 5,257 (A)</u>	<u>\$ 972 (B)</u>	<u>18.5</u>	<u>\$ 6,229</u>

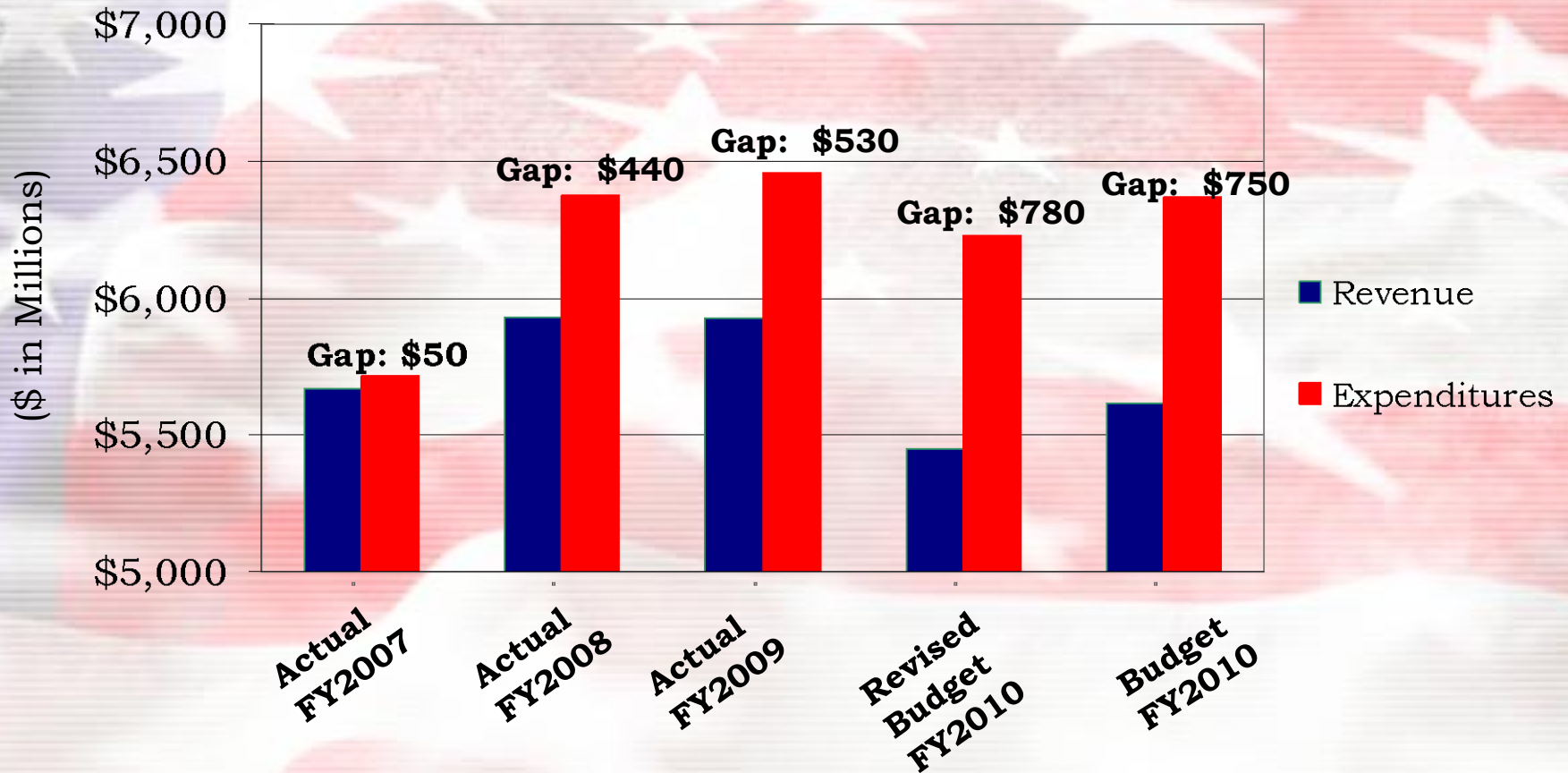
(A) Excludes Cash Reserve Fund repayments of \$46 million in FY05 and \$45 million in FY10.
(B) Includes Federal stimulus monies—FY09 - \$154 million, FY10 - \$592 million.

State of Iowa – General Fund Budget Historical Perspective— Unsustainable Spending Growth (\$ in Millions)

	Actual FY2007	Original Budget		
		FY2008	FY2009	2-year
Revenues	<u>\$5,723</u>	<u>\$5,990</u>	<u>\$6,282</u>	
Revenue growth		<u>\$267</u>	<u>\$292</u>	<u>\$559</u>
		<u>4.7%</u>	<u>4.9%</u>	<u>9.8%</u>
True total expenditures*	<u>\$5,713</u>	<u>\$6,291</u>	<u>\$6,589</u>	
Expenditure growth		<u>\$578</u>	<u>\$298</u>	<u>\$876</u>
		<u>10.1%</u>	<u>4.7%</u>	<u>15.3%</u>
2-year expenditure growth as % of revenue growth				<u>156.7%</u>

*Adjusted for all resources

State of Iowa – General Fund Budget Historical Perspective— Spending Gap



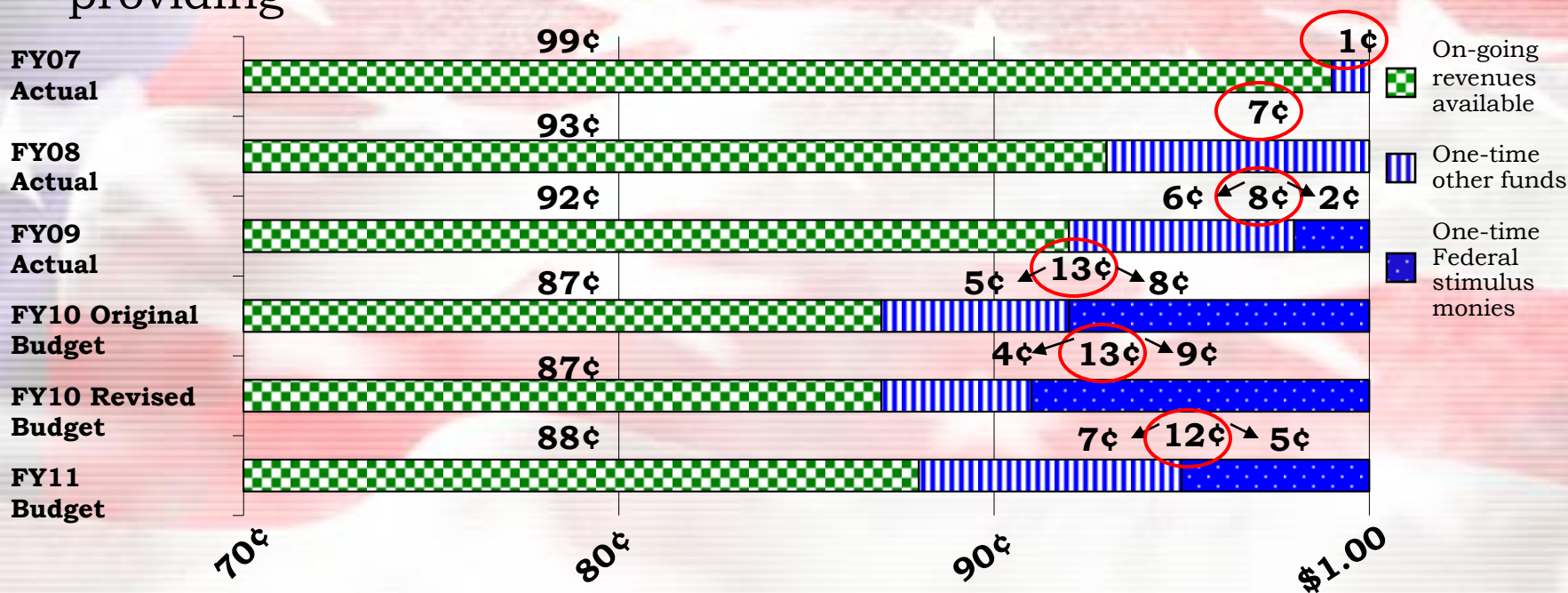
Spending gaps have been bridged by shifting costs to other funds and special accounts (Senior Living Trust Fund, Tobacco settlement funds, etc.)

State of Iowa

FY10 General Fund Budget

On-going Spending Supported by One-time Monies

For every dollar of on-going spending, one-time monies are providing—

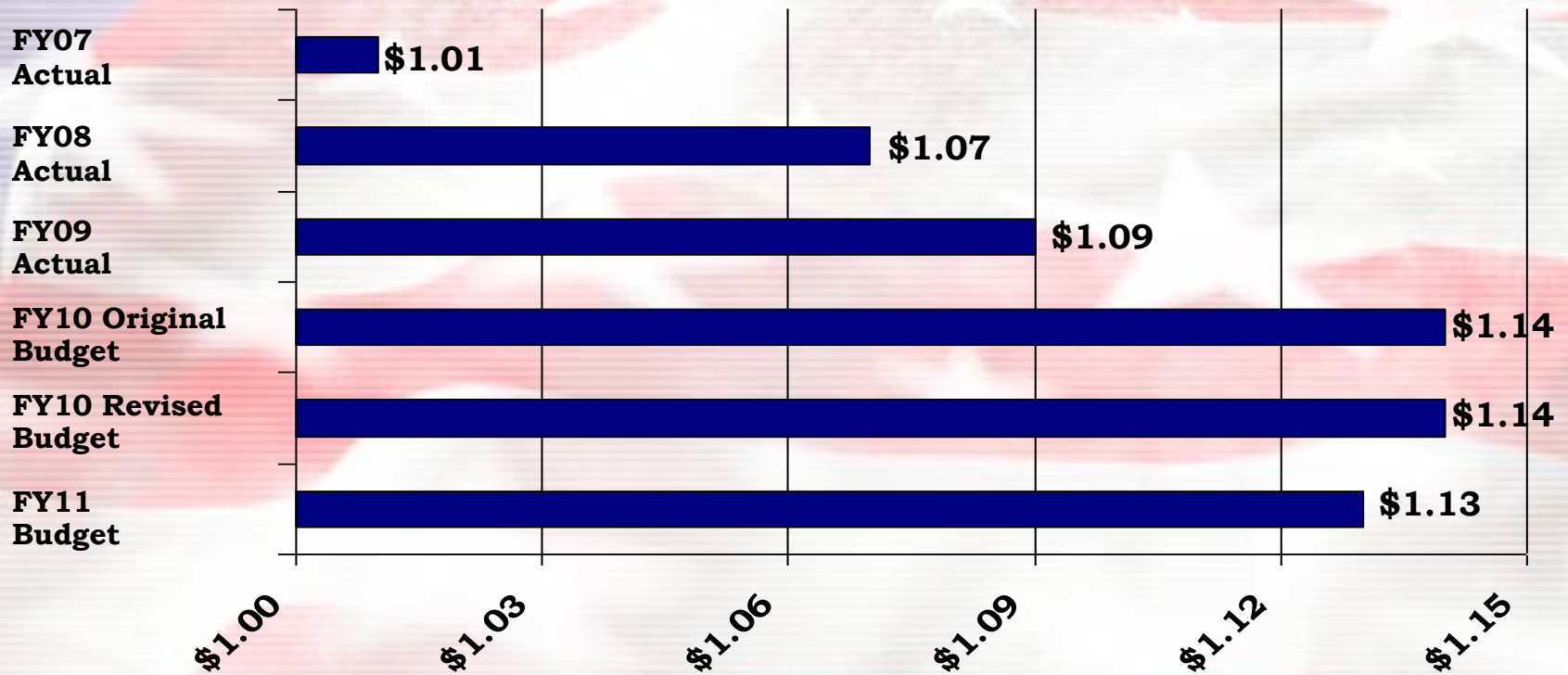


State of Iowa

FY10 General Fund Budget

On-going Revenues vs. On-going Spending

For every \$1.00 of on-going available revenues, we somehow think we can spend—



State of Iowa - General Fund Budget Wasn't This a Time to be Fiscally Conservative?

Here's what the experts were saying during the 2008 legislative session:

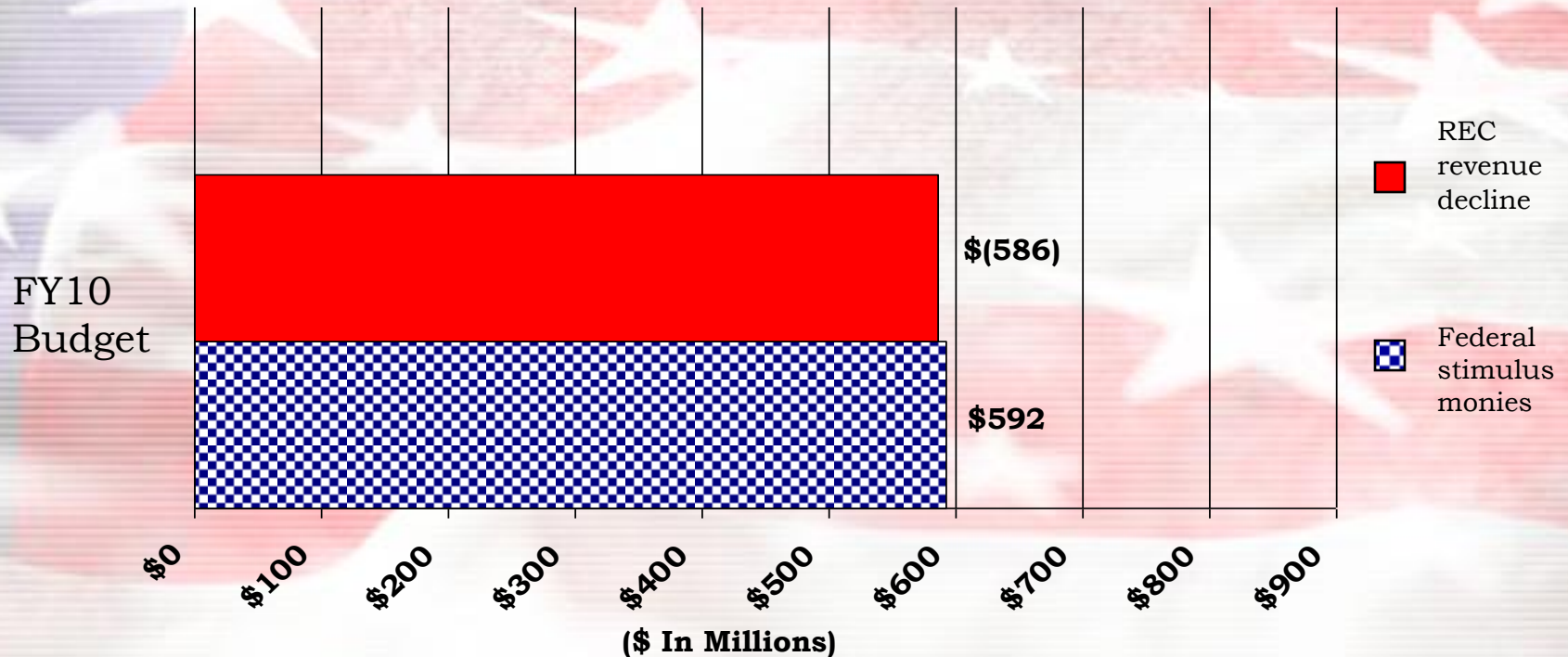
- If the current downturn follows the path of previous recessions, 35 to 40 states could face budget cuts in 2009. That's largely because of a lag before economic effects show up in states' revenues. (National Governors' Association, Executive Director Raymond Scheppach, March 2008)
- I'm beginning to think this (downturn) is going to be long and deep. (Center on Budget and Policy Priorities, Deputy Director Iris J. Lav, March 2008)

State of Iowa

FY10 General Fund Budget

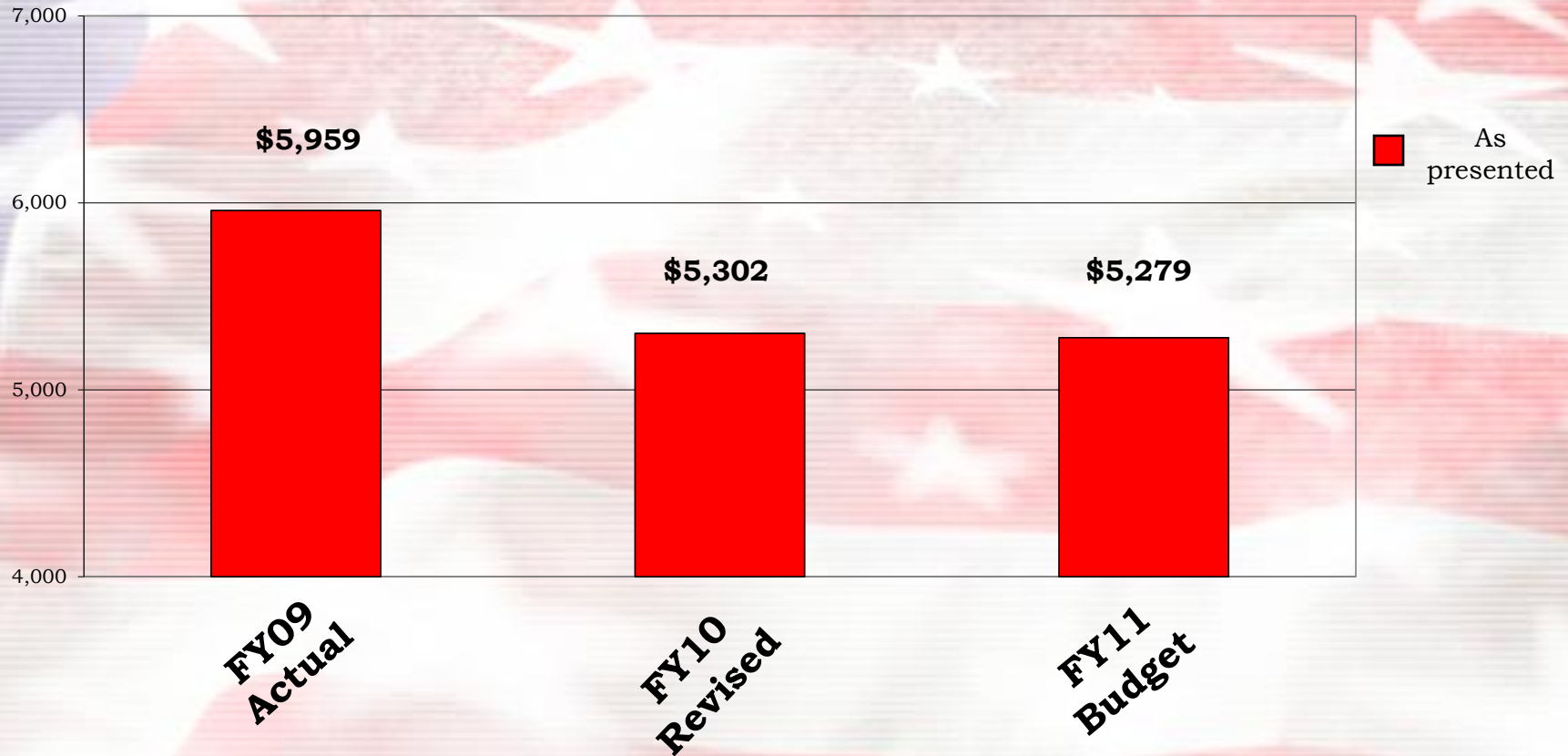
REC Revenue Declines vs. Federal Stimulus Monies

After Revised REC Estimates

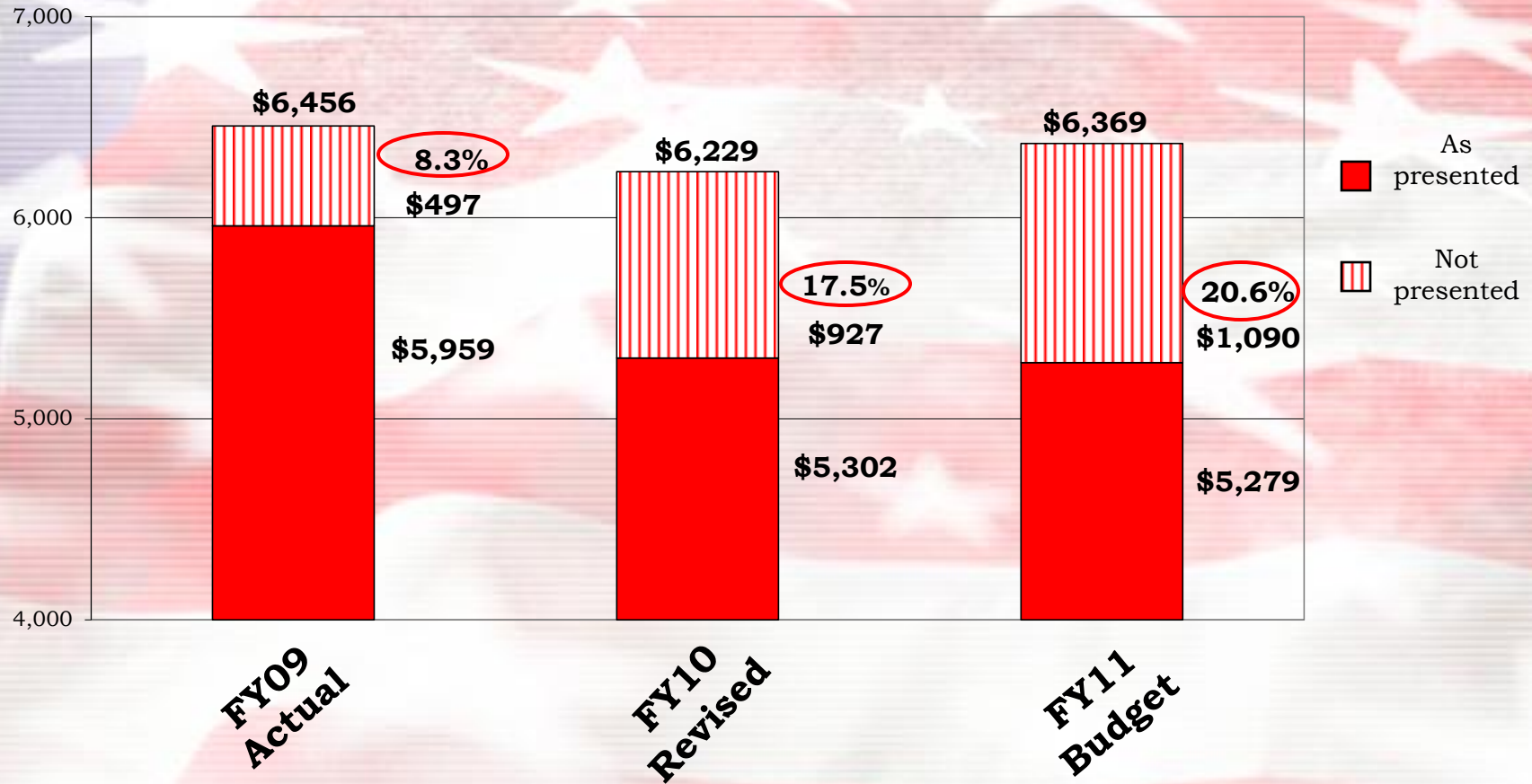


Federal stimulus monies more than offset every dollar of FY10 revenue decline – the Federal government actually gave us \$6 million more than our revenue decline.

State of Iowa FY11 General Fund Budget Expenditures Presented – the “Spin” (\$ in Millions)



State of Iowa FY11 General Fund Budget Expenditures Presented – the “Spin” vs. Reality (\$ in Millions)



State of Iowa
FY11 General Fund Budget
“Savings” – More Talk than Dollars
(\$ in Millions)

Reorganization and efficiencies included:

Revenue enhancements \$ 22

Cost savings:

Executive order 17

Legislative:

Retirement incentives 26

Other 50

Appropriation for contingencies/tracking (7)

\$108

Savings as a % of General Fund “true total expenditures” (\$6,369)

1.7%

Let’s put “savings” in perspective—

It’s like a family with a \$250 weekly grocery budget reducing its weekly grocery costs by \$4.

State of Iowa
FY11 General Fund Budget
The “Cliff” for FY12
(\$ in Millions)

One-time monies in FY11:

Federal stimulus	\$325		
Non-General Funds:			
Cash Reserve Fund	265		
Senior Living Trust Fund	48		
Underground Storage Tank Fund	24		
School Infrastructure Fund	8		
Carryforward balances	56		
Other	<u>10</u>	<u>\$736</u>	<u>11.6%</u> (A)

Expenditure shifts (B):

Rebuild Iowa Infrastructure Fund	\$ 77		
Other funds	<u>12</u>	<u>\$ 89</u>	<u>1.4%</u> (A)

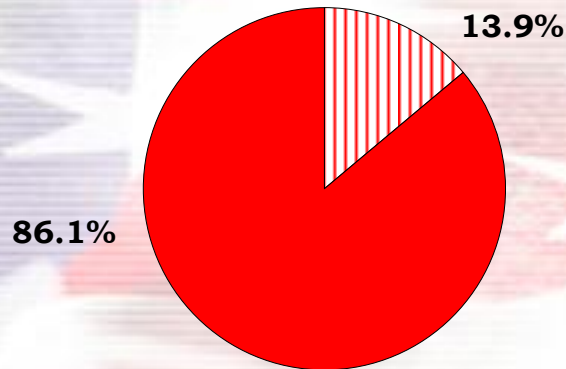
This demonstrates a very short-term vision—

Look at the built-in FY12 “cliff” Iowa will face absent any spending increase.

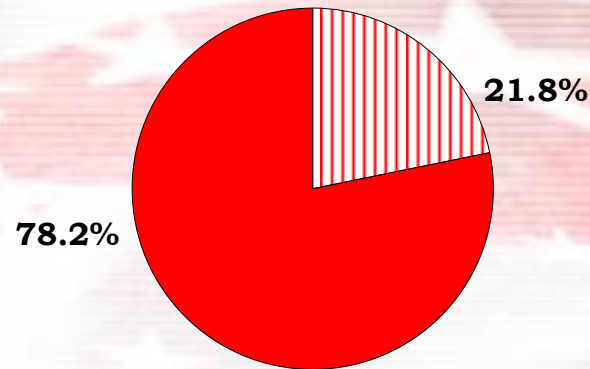
(A) % of “true total expenditures” - \$6,369

(B) Excludes IowaCare Account and Health Care Trust Fund with revenues and expenditures shifted

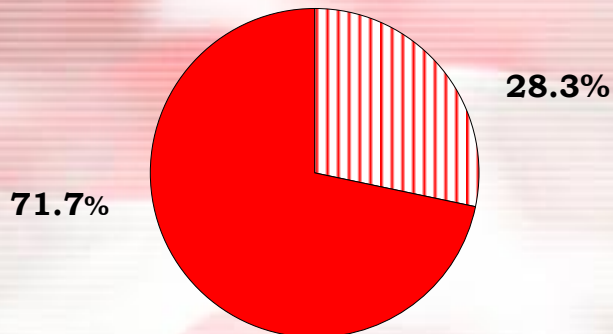
State of Iowa FY11 General Fund Budget Medicaid – The Hole is Deep (\$ in Millions)



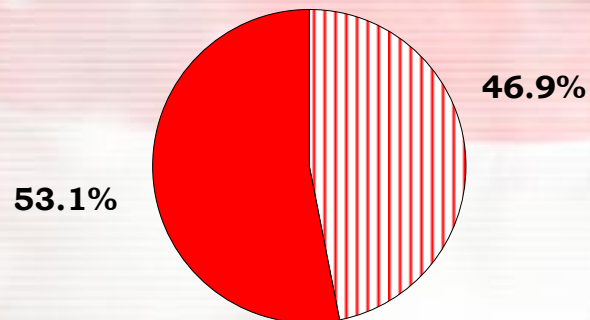
FY08 Actual
Total \$849 million



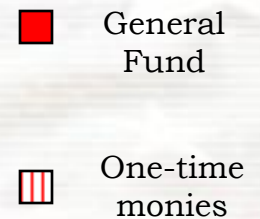
FY09 Actual
Total \$908 million



FY10 Revised
Total \$974 million



FY11 Budget
Total \$1,048 million



State of Iowa FY11 General Fund Budget Federal Stimulus – Medicaid Extension

Expiration date – December 31, 2010

FY11 budget – assumes extension through June 30, 2011

Additional Federal stimulus monies provided if extension is approved – \$125 million

Ironic—

Legislative “talk” was all about FY11 savings from reorganization and efficiencies of \$108 million; however, nothing highlighted this yet to be approved \$125 million of additional Federal one-time monies used to “balance” the budget.

State of Iowa

FY11 General Fund Budget

What's the Status of "Rainy Day Funds?"

(\$ in Millions)

	<u>FY09 Actual</u>	<u>FY10 Revised</u>	<u>FY11 Budget</u>	<u>Total</u>
Beginning balance				<u>\$ 592</u>
<u>Withdrawals:</u> Flood recovery	\$ (56)	\$ -	\$ (7)	
General Fund deficit	(45)	-	-	
Transfer to General Fund	-	(65)	-	
Appropriations for General Fund	-	(81)	(265)	
Excess transfer	(20)	-	-	
	<u>(121)</u>	<u>(146)</u>	<u>(272)</u>	(539)
 <u>Deposits:</u> General Fund repayment	 \$ -	 \$ 45	 \$ -	
General Fund surplus	48	-	53	
	<u>\$ 48</u>	<u>\$ 45</u>	<u>\$ 53</u>	<u>146</u>
Ending balance				<u><u>\$199</u></u>

Remember hearing "the largest Rainy Day Funds ever?"—

By next year, two-thirds of these reserves will be drained, and the balance will be nearly \$350 below the required amount.

"Rainy Day Funds"—Cash Reserve and Economic Emergency Funds

State of Iowa
FY11 General Fund Budget
Bumps in the Road for FY11
(\$ in Millions)

Unfunded state school aid	\$162
Unfunded FY10 unpaid leave days and FY11 collective bargaining costs	<u>50</u> ^(A)
	<u>\$212</u>

These bumps in the road for FY11 raise very significant questions—

- *State school aid – what’s the impact to property taxes?*
- *Salary costs – what are the plans for FY11 furlough/unpaid leave days and layoffs?*

(A) Excludes furloughs, estimate not available

State of Iowa

FY11 General Fund Budget

The FY12 Outlook

(\$ in Millions)

		<u>Spending Gap</u>	
		<u>Amount</u>	<u>%</u>
FY11 available revenues (A)	<u>\$5,614</u>		
FY11 “true total expenditures”	<u>\$6,369</u>	<u>\$ 755</u>	<u>13.4%</u>
FY11 “true total expenditures” including unfunded school aid and collective bargaining/ furlough costs	<u>\$6,581</u>	<u>\$ 967</u>	<u>17.2%</u>

Continues to “kick the can down the road”—

When will elected officials recognize it only makes solving the problem that much more difficult?

(A) Reflects 99% expenditure limitation

State of Iowa

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[YouTube.com](#) – Key words “Iowa Auditor”
5-minute Iowa budget video



Questions

